

Weak quarter; FY27 outlook remains muted!

About the stock: HCL Technologies (HCLTech) is a global technology company, delivering industry-leading capabilities centered around digital, engineering, cloud and AI, powered by a broad portfolio of technology services and products.

Q4FY26 & FY26 Performance: Revenues were at US\$3,682 mn, -2.9% QoQ/ +5.3% YoY (in CC terms -3.3% QoQ/ +2.4% YoY). The services business revenue was down 0.1% QoQ / up 4.2% YoY CC. EBIT margin at 16.5%, was down ~202 bps QoQ, Services (IT & Business & ER&D services) margin at 16.2%, was down ~27 bps QoQ. PAT at ₹4,488 crore, -6.4% QoQ/ +4.2% YoY. For FY26, revenue was US\$14,664 mn, +6% YoY (+3.9% YoY CC) with services business revenue up 4.8% YoY CC. EBIT margin at 17.2%, was down ~10 bps YoY. PAT at ₹17,361 crore, flat YoY.

Investment Rationale

- Weak deal momentum & client-specific headwinds impact near-term growth:** HCLTech reported a weak Q4 with revenue declining 3.3% QoQ CC and deal wins falling sharply (TCV down ~35.6% QoQ/35.4% YoY), indicating slowdown in demand conversion. **Performance was impacted by discretionary spending cuts from two large US telecom clients & ramp-down of SAP programs in select manufacturing and retail clients, creating ~50 bps growth headwind for FY27. FY27 services revenue growth guidance stood at 1.5–4.5% YoY CC with overall company guidance of 1–4% YoY CC.** Continued delays in client decision-making and weak software performance (-28.1% QoQ CC/-14.1% YoY CC) further limit near-term growth visibility. **We expect US\$ revenue to grow at a CAGR of 4.2% over FY26–28E with 2.5% growth in FY27.**
- Margin pressure from software weakness and cost headwinds:** EBIT margin declined ~202 bps QoQ to 16.5%, primarily due to software seasonality & delayed pricing decisions (~181 bps). While services margins remained relatively stable at 16.2%, down ~27 bps QoQ impacted by second cycle of wage hikes (-45 bps), restructuring (-41 bps), higher bad debt provision (-19 bps) which were offset by Project Ascend benefits (+13 bps) & forex (+65 bps). **Although management expects margins to remain within the 17.5–18.5% band for FY27, sustaining margins could be challenging amid pricing deflation, cost takeout deals and continued investment in AI capabilities. We bake EBIT margins at 17.8%/18% in FY27E/FY28E.**
- AI opportunity strong but near-term monetisation remains limited:** HCLTech continues to build strong AI capabilities with annualised AI revenue at US\$620 mn (~4.5% of overall revenues) and growing deal traction, supported by platforms like AI Force and large AI-led engagements. **However, AI-driven deflation (2–3% portfolio impact) in traditional services and shift towards cost optimisation deals could offset benefits in the near term.** With AI-native opportunities still small relative to overall revenues, meaningful revenue acceleration from AI is likely to remain gradual rather than immediate.

Rating and Target Price

- We maintain **HOLD** rating on the stock, valuing it at target price of ₹1,300 (vs ₹1,500 earlier); at 17x P/E on FY28E EPS.

Key Financial Summary

Key Financials	FY24	FY25	FY26	5 year CAGR (FY21-26)	FY27E	FY28E	2 year CAGR FY(26-28E)
Net Sales	1,09,913	1,17,055	1,30,144	11.5	1,38,304	1,46,602	6.1
EBITDA	24,200	25,504	26,752	6.5	29,320	31,519	8.5
Margins (%)	22.0	21.8	20.6		21.2	21.5	
Net Profit	15,702	15,702	17,390	9.5	19,023	20,589	8.8
EPS (₹)	54.8	57.9	64.1		70.1	75.9	
P/E	23.6	22.3	20.1		18.4	17.0	
RoNW (%)	23.0	22.5	23.1		22.9	24.8	
RoCE (%)	27.2	28.7	29.0		27.5	29.7	

Source: Company, ICICI Direct Research



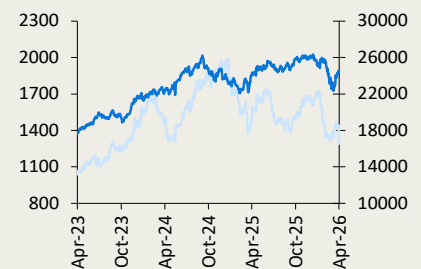
Particulars

Particular	Amount
Market Cap (₹ Crore)	3,50,063
Total Debt (₹ Crore)	37
CC&E (₹ Crore)	30,385
EV (₹ Crore)	3,19,715
52 week H/L	1780 / 1297
Equity capital	543.0
Face value (₹)	2

Shareholding pattern

	Jun-25	Sep-25	Dec-25	Mar-26
Promoters	60.8	60.8	60.8	60.9
FII	18.6	16.6	16.2	15.5
DII	16.2	17.8	18.4	19.0
Public	4.4	4.7	4.6	4.6

Price Chart



— HCLTech (LHS) — Nifty (RHS)

Key risks

- Lower than expected TCV and revenue conversion
- Faster than expected normalisation of client specific issues

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

CA Anjini Sharma
anjini.sharma@icicisecurities.com

Performance highlights and outlook

- Revenue Performance:** HCLTech reported revenue of US\$3,682 mn, down 2.9% QoQ & up 5.3% YoY (in CC terms down 3.3% QoQ/ up 2.4% YoY). In rupee terms, the revenue stood at ₹ 33,981 crore, up 0.3% QoQ/ 12.3% YoY. The services business revenue was down 0.1% QoQ and up 4.2% YoY CC. IT services was up 0.1% while ER&D services and Software de-grew 1.3% and 28.1% QoQ CC. For FY26 revenue stood at US\$14,664 mn, up 6% YoY (up 3.9% YoY CC which is 10 bps below guidance). The services business revenue was up 4.8% YoY CC. IT services and ER&D services was up 3.7% and 9.8% while Software de-grew 4.1% YoY CC.
 - Apart from sequential decline due to seasonality in the software business, there was a delay in procurement decision in the month of March that resulted in revenue coming below expectations.
- Advanced AI revenues:** Annualised Advanced AI Revenue came at US\$155mn, up 6.1% QoQ CC. Annualised Advanced AI Revenue came at US\$620 mn (~4.5% of overall revenues).
- Geography performance:** Geography wise on a YoY basis in CC terms growth was led by ROW (14% of mix), Americas (56% of mix) and India (3% of mix) reporting a growth of 13.7%, 4.9%, and 2.9% while Europe (27% of mix) de-grew 2.9%.
- Segment performance:** Segment wise on YoY basis in CC terms, growth was led by Tech & Services (15% of the mix), Public Services (9.2% of the mix), Financial Services (21.4% of the mix), Retail & CPG (9.7% of the mix), Manufacturing (18.6% of the mix) and Life Sciences & Healthcare (14.7% of the mix) which grew by 17.8%, 10.7%, 4.3%, 3.5%, 3.3% and 1.6% respectively. Whereas, TMPE (12.1% of the mix) declined by 8.6%.
- Margin Performance:** EBIT margin at 16.5%, was down ~202 bps QoQ, due to headwinds from softness in software business due to seasonality and delayed price decisions (-181 bps) and included a 122 bps impact from restructuring in Q4. The Services (IT & Business services and ER&D services) margin stood at 16.2%, down ~27 bps QoQ due to second cycle of wage hikes (-45 bps), restructuring (-41 bps), higher bad debt provision (-19 bps) offset by Project Ascend benefits (+13 bps) and forex (+65 bps). PAT stood at ₹4,488 crore, down 6.4% QoQ/ up 4.2% YoY. For FY26, EBIT margin at 17.2%, was down ~10 bps YoY. PAT stood at ₹17,361 crore, flat YoY.
- TCV/Software ARR:** HCLTech won a TCV of US\$1.936 bn (down 35.6% QoQ & 35.4% YoY). HCL Software ARR came at US\$1.045 bn, down 0.5% YoY in CC terms. TCV for FY26 came at US\$9.32 bn, up 0.6% YoY.
- Advanced AI deals;** A global technology major selected HCL Tech for another AI factory program worth over \$100 million. Secondly, a global semiconductor major selected HCL Tech's AI engineering services to support ASIC development across multiple advanced node chips, strengthening its position in physical AI.
- Demand Outlook:** As per the management, services revenue performance was impacted by client-specific headwinds, particularly from two large telecom clients in the US that significantly cut discretionary spending across digital and engineering services. Additionally, two other clients (one in manufacturing and one in retail) faced business-specific challenges leading to IT budget reductions and discontinuation of two SAP programs, which are expected to continue into FY27 and create ~50 bps growth headwind for FY27 revenues. While AI-led demand and pipeline remain strong, pricing deflation and shift towards cost takeout deals could weigh on growth. Additionally, the company's exposure to AI-disrupted services (implying potential 2–3% deflation for its portfolio) raises medium-term concerns on core service line growth, partially offset by gradual scaling in AI-led offerings, which are still not large enough to materially move the needle.
- Guidance for FY26:** Management provided FY27 services revenue growth guidance of 1.5–4.5% YoY CC and overall company guidance of 1–4% YoY CC. On the margins front it guided for full-year EBIT margin

of 17.5–18.5%. The guidance excludes contributions from the acquisitions (Telecom Solutions Group from HPE, Jaspersoft) as their closure is delayed due to the shutdown of certain US government departments. At the lower end, the guidance factors in continued soft discretionary spend and further ramp-downs beyond those planned for the aforementioned two clients. At the higher end, the guidance factors in a moderate pickup in discretionary spend and a couple of large deals materialising in the first half of FY27.

- **Attrition & Employee addition:** IT services attrition stood at 12.5% (up ~10 bps QoQ). The total headcount stood at 2,27,181 with 1,712 freshers onboarded.
- **Dividend:** The company declared an interim dividend of ₹24 per share taking the full year dividend to ₹60 per share.

Exhibit 1: Quarter Performance

	Q4FY26	Q4FY25	YoY (%)	Q3FY26	QoQ (%)	Comments	FY26	FY25	YoY (%)
Revenue (US\$ mn)	368	350	5.3	379	-2.9	In CC terms, revenue was down 3.3% QoQ/ up 2.4% YoY in Q4 while for FY26 it was up 3.9% YoY CC	1,466	1,384	6.0
Revenue (₹ crore)	33,981	30,246	12.3	33,872	0.3	The services business revenue was down 0.1% QoQ and up 4.2% YoY CC. IT services was up 0.1% while ER&D services and Software de-grew 1.3% and 28.1% QoQ CC. For FY26, The services business revenue was up 4.8% YoY CC. IT services and ER&D services was up 3.7% and 9.8% while Software de-grew 4.1% YoY CC.	1,30,144	1,17,055	11.2
Cost of sales (including employee expenses)	23,067	20,199	14.2	22,623	2.0		87,811	77,815	12.8
Gross Margin	10,914	10,047	8.6	11,249	-3.0		42,333	39,240	7.9
Gross margin (%)	32.1	33.2	-110 bps	33.2	-109 bps		32.5	33.5	-99 bps
Selling & marketing costs	4,202	3,565	17.9	3,837	9.5		15,581	13,736	13.4
EBITDA	6,712	6,482	3.5	7,412	-9.4		26,752	25,504	4.9
EBITDA Margin (%)	19.8	21.4	-168 bps	21.9	-213 bps		20.6	21.8	-123 bps
Depreciation	1,092	1,040	5.0	1,127	-3.1		4,355	4,084	6.6
EBIT	5,620	5,442	3.3	6,285	-10.6		22,397	21,420	4.6
EBIT Margin (%)	16.5	18.0	-145 bps	18.6	-202 bps	EBIT margin at 16.5%, was down ~202 bps QoQ, due to headwinds from softness in software business due to seasonality and delayed price decisions (-181 bps). The Services (IT & Business services and ER&D services) margin stood at 16.2%, down ~27 bps QoQ due to second cycle of wage hikes (-45 bps), restructuring (-41 bps), higher bad debt provision (-19 bps) offset by Project Ascend benefits (+13 bps) and forex (+65 bps).	17.2	18.3	-8 bps
Other income	82	293	-72.0	180	-54.4		661	1,841	-64.1
PBT	5,702	5,735	-0.6	6,465	-11.8		23,058	23,261	-0.9
Tax paid	1,212	1,426	-15.0	1,664	-27.2		5,687	5,862	-3.0
PAT	4,488	4,307	4.2	4,795	-6.4		17,361	17,390	-0.2

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY27E			FY28E		
	Old	New	% Change	Old	New	% Change
Revenue (USD mn)	15,564	15,033	-3.4	16,576	15,935	-3.9
Revenue	1,39,299	1,38,304	-0.7	1,49,182	1,46,602	-1.7
EBITDA	29,949	29,320	-2.1	32,522	31,519	-3.1
EBITDA Margin (%)	21.5	21.2	-30 bps	21.8	21.5	-30 bps
PAT	19,756	19,023	-3.7	21,515	20,589	-4.3
Diluted EPS (₹)	72.8	70.1	-3.7	79.3	75.9	-4.3

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit and loss statement				₹ crore
Year-end March	FY26	FY27E	FY28E	
Total operating Income	1,30,144	1,38,304	1,46,602	
Growth (%)	11.2	6.3	6.0	
Direct costs	87,811	92,110	97,490	
S,G&A expenses	15,581	16,873	17,592	
Total Operating Expenditure	1,03,392	1,08,983	1,15,083	
EBITDA	26,752	29,320	31,519	
Growth (%)	4.9	7.5	(100.0)	
Depreciation	4,084	4,715	5,115	
Amortisation	-	-	-	
Net Other Income	1,841	837	1,131	
PBT	24,509	27,642	(3,984)	
Forex adjustments	-	-	-	
Total Tax	5,862	6,412	6,939	
PAT	17,390	19,023	20,589	
Growth (%)	10.8	9.6	8.2	
EPS (₹)	64.1	70.1	75.9	
EPS (₹)	64.1	70.1	75.9	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				₹ crore
Year-end March	FY26	FY27E	FY28E	
PBT	24,509	25,626	27,642	
Depreciation & Amortisation	4,355	4,715	5,115	
(Inc)/dec in Current Assets	(2,221)	(2,518)	(2,560)	
Inc/(dec) in CL and Provisions	699	2,121	2,157	
Taxes paid	(4,076)	(6,412)	(6,939)	
CF from Op. Activities	19,975	22,504	24,169	
(Inc)/dec in Investments	930	1,969	1,131	
(Inc)/dec in Fixed Assets	(1,566)	(2,766)	(2,932)	
CF from Inv activities	(1,473)	(1,929)	(1,801)	
Issue/(Buy back) of Equity	-	-	-	
Inc/(dec) in loan funds	(2,318)	(20)	(10)	
Dividend paid & dividend tax	(14,618)	(15,219)	(16,471)	
Inc/(dec) in debentures	-	-	-	
Others	(2,443)	-	-	
CF from Financing	(19,369)	(15,229)	(16,481)	
Net Cash flow	(867)	5,347	5,887	
Exchange difference	817	70	-	
Opening Cash	8,245	8,195	13,612	
Closing Cash	8,195	13,612	19,499	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				₹ crore
Year-end March	FY26	FY27E	FY28E	
Liabilities				
Equity Capital	543	543	543	
Reserve and Surplus	74,622	82,544	82,544	
Total Shareholders funds	75,165	83,087	83,087	
Total Debt	37	17	17	
Other liabilities+Provisions	9,198	9,451	9,451	
Minority Interest / Others	32	32	32	
Total Liabilities	84,432	92,587	92,587	
Assets				
Net Block+ CWIP	8,309	6,635	6,635	
Intangible assets+ Goodwill	29,130	26,673	26,673	
Investments	130	130	130	
Liquid investments	6,960	6,960	6,960	
Inventory	239	269	269	
Debtors	23,585	26,568	26,568	
Loans and Advances	1,017	1,146	1,146	
Other Current Assets	15,316	17,253	17,253	
Cash & Bank	23,425	34,659	34,659	
Total Current Assets	70,542	86,854	86,854	
Total Current Liabilities	31,826	35,851	35,851	
Net Current Assets	38,716	51,003	51,003	
Other non current assets	8,147	8,147	8,147	
Application of Funds	84,432	92,587	92,587	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios			
Year-end March	FY26	FY27E	FY28E
Per share data (₹)			
EPS	64.1	70.1	75.9
Cash EPS	79.1	87.5	94.7
BV	277.0	306.2	306.2
DPS	51.2	56.1	60.7
Cash Per Share	86.3	127.7	127.7
Operating Ratios (%)			
EBIT Margin	17.4	17.8	18.0
PBT Margin	18.8	18.5	18.9
PAT Margin	13.4	13.8	14.0
Debtor days	66	70	66
Return Ratios (%)			
RoE	23.1	22.9	24.8
RoCE	29.0	27.5	29.7
RoIC	41.9	48.3	51.8
Valuation Ratios (x)			
P/E	20.1	18.4	17.0
EV / EBITDA	12.0	10.5	9.8
EV / Net Sales	2.5	2.2	2.1
Market Cap / Sales	2.7	2.5	2.4
Price to Book Value	4.7	4.2	4.2
Solvency Ratios			
Debt/EBITDA	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0
Current Ratio	1.3	1.3	1.3
Quick Ratio	1.3	1.3	1.3

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Jeetu Jawrani Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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